

Message Text

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ACTION ARA-10

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PA-01 PRS-01 SP-02 SS-15 AID-05 COME-00 EB-07 FRB-03

TRSE-00 XMB-02 OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01

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TAGS: EFIN MX

SUBJ: GOM STABILIZATION MEASURES

MANILA PASS USDEL TO BANK/FUND MEETINGS, ATTENTION R. ERB,
AND S. CROSS

1. SUMMARY: GOM HAS ISSUED DECREE TO TIGHTEN UP ON PUBLIC
SECTOR EXPENDITURES FOR BALANCE OF YEAR. IMPACT MAY NOT BE
GREAT, BUT THIS IS POSITIVE IN THAT IT IS THE FIRST PUBLIC
INDICATION THAT THE GOVERNMENT IS GOING TO ACT TO REDUCE
EXPENDITURES. FEDERAL GOVERNMENT WAGE INCREASES TO BE 23 AND
21 PERCENT DEPENDING ON CURRENT SALARY. ADDITIONAL INCREASE OF
ABOUT 5 PERCENT IS LIKELY. RECOMMENDED WAGE GUIDELINES FOR PRIVATE
INDUSTRIES OF 23, 21 AND 16 PERCENT ARE BEING FOLLOWED BY MOST
COMPANIES AND ARE BEING CONSIDERED BY MANAGEMENT AND LABOR
ADDITIONAL TO WAGE INCREASES GRANTED EARLIER THIS YEAR.
END SUMMARY.

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2. DIARIO OFICIAL OF SEPTEMBER 28, CARRIES PRESIDENTIAL DECREE

TIGHTENING CONTROLS ON PUBLIC SECTOR EXPENDITURES. DECREE CALLS FOR: (A) NO INCREASE IN EXPENDITURES ABOVE BUDGETED LEVELS; (B) NO INCREASE IN PUBLIC SECTOR EMPLOYMENT, OF FILLING OF VACANCIES WITHOUT PRIOR APPROVAL OF TREASURY FOR FEDERAL GOVERNMENT AND NATIONAL PATRIMONY MINISTRY FOR GOVERNMENT-OWNED COMPANIES; (C) PRIOR APPROVAL FOR FOREIGN TRAVEL BY ALL PUBLIC SECTOR EMPLOYEES.

3. THE DECREE CALLS FOR THE FOLLOWING MEASURES RE INVESTMENT EXPENDITURES: (A) NO NEW CONSTRUCTION OF BUILDINGS EXCEPT FOR EDUCATION AND SOCIAL ASSISTANCE; (B) EXISTING INFRASTRUCTURE, BUILDINGS ARE TO BE USED EFFICIENTLY BEFORE UNDERTAKING NEW INVESTMENTS; (C) THE ACQUISITION OR FORMATION OF NEW COMPANIES BY THE PUBLIC SECTOR IS TO BE UNDERTAKEN ONLY WITH RESOURCES TAKEN FROM ACTIVITIES WITH A LOWER PRIORITY AND WITH PRIOR APPROVAL OF TREASURY; (D) THERE ARE TO BE NO PURCHASES OF OFFICE EQUIPMENT AND TRANSPORTATION EQUIPMENT; (E) TREASURY CAN REDUCE OR CANCEL BUDGETED FUNDS THAT HAVE NOT BEEN COMMITTED; (F) TREASURY IS TO UNDERTAKE STUDIES WITH INTENT OF ELIMINATE AGENCIES OR PUBLIC SECTOR COMPANIES THAT HAVE FULFILLED THEIR ORIGINAL PURPOSE; (G) SUBSIDIES FOR NON-PRIORITY ACTIVITIES ARE TO BE ELIMINATED; (H) TREASURY WILL NOT RECOGNIZE OBLIGATIONS MADE BY GOVERNMENT AGENCIES THAT ARE NOT PROVIDED FOR IN EXISTING BUDGETS.

4. FEDERAL GOVERNMENT EMPLOYEES WAGE INCREASE ANNOUNCED LATE SEPTEMBER 28, AND IS TO BE 23 PERCENT FOR EMPLOYEES MAKING LESS THAN 10,000 PESOS (THE EQUIVALENT OF \$500 A MONTH) AND 21 PERCENT FOR THOSE MAKING MORE. IN ADDITION, GOVERNMENT EMPLOYEES WILL GET A SPECIAL SUPPLEMENTARY INCREASE THAT IS YET TO BE ANNOUNCED BUT MAY BE AROUND 5 PERCENT. LOPEZ-PORTILLO ADVISOR, RAFAEL IZQUIERDO, TOLD US HIS UNDERSTANDING OF RATIONALE BEHIND WAGE INCREASE IS AS FOLLOWS: 13 PERCENT IS FOR RISE IN COST OF LIVING FROM JANUARY THROUGH AUGUST, 10 PERCENT IS TO COMPENSATE FOR GENERAL APPROVAL GIVEN FOR 10 PERCENT PRICE INCREASES FROM AUGUST 15. THE SUPPLEMENTARY INCREASE IS TO COVER THE INCREASE IN THE COST OF LIVING FROM AUGUST 1975, WHEN THE LAST LIMITED OFFICIAL USE

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FEDERAL WORKERS WAGE INCREASE BECAME EFFECTIVE, TO DECEMBER 1975. THIS WAS 4 PERCENT, HENCE THE UNANNOUNCED SUPPLEMENTARY INCREASE IS LIKELY TO BE ABOUT 5 PERCENT, MAKING THE TOTAL EFFECTIVE INCREASE 26-28 PERCENT. (NOTE: THE INCREASE IN THE NATIONAL CONSUMER PRICE INDEX FROM DECEMBER 1975 TO JULY 1976 WAS 7.7 PERCENT. NOT CLEAR TO US WHERE IZQUIERDO GOT HIS 13 PERCENT FIGURE. INCREASE IN THIS INDEX FROM AUGUST 1976 TO JULY 1976 WAS 10.7 PERCENT.)

5. MINIMUM WAGES ARE TO BE INCREASED 23 PERCENT EFFECTIVE OCTOBER 1. IZQUIERDO TOLD US THAT LOPEZ-PORTILLO WOULD BE LIKELY TO APPROVE ANOTHER INCREASE JANUARY 1, THAT WOULD COMPENSATE FOR THE INCREASE IN PRICES BETWEEN OCTOBER 1 AND JANUARY 1. HE NOTED THAT LOPEZ-PORTILLO BELIEVED THAT WORKERS' PURCHASING POWER SHOULD BE MAINTAINED. IZQUIERDO ALSO JUSTIFIED WAGE INCREASES BY MAINTAINING THAT THEY ACCOUNT FOR A SMALLER PERCENTAGE OF NATIONAL INCOME (ABOUT 30 PERCENT) THAN IN THE INDUSTRIAL COUNTRIES.

6. WAGE INCREASES IN THE PRIVATE SECTOR APPEAR TO BE FOLLOWING RECOMMENDATION MADE BY PRESIDENT ON FRIDAY, SEPTEMBER 24, OF 23, 21, AND 16 PERCENT, DEPENDING ON INCOME LEVEL. NON-ORGANIZED AS WELL AS ORGANIZED LABOR ARE GETTING INCREASES. ACCORDING TO SOUNDINGS OF LOCAL BUSINESSMEN, THESE WAGE INCREASES ARE ADDITIONAL TO WAGE INCREASES GRANTED EARLIER THIS YEAR AND ARE NOT, REPEAT NOT INCLUSIVE. FOR COMPANIES IN THE PROCESS OF NEGOTIATING WAGE INCREASES AT THE TIME OF THE DEVALUATION, THE PICTURE IS MIXED. ONE AUTO PRODUCER AGREED TO A 15 PERCENT INCREASE EFFECTIVE SEPTEMBER 1, PLUS THE 23/21/16 PERCENT INCREASE EFFECTIVE SEPTEMBER 1. ANOTHER COMPANY AGREED TO A SINGLE 31 PERCENT INCREASE. OTHER COMPANIES HAVE NOT YET DECIDED ON WHAT COURSE TO TAKE. COMPANIES WITH ANNUAL CONTRACTS UP FOR NEGOTIATION OVER THE NEXT SEVERAL MONTHS ARE NOT CERTAIN WHAT WILL HAPPEN BUT HOPE TO KEEP ANNUAL WAGE INCREASES AROUND 10 PERCENT. THIS WOULD BE ADDITIONAL TO THE SPECIAL 23/21/16 INCREASES.

7. IT SHOULD BE NOTED THAT GENERAL RULE PERMITTING 10 PERCENT INCREASE IN PRICES ON GOODS SUBJECT TO PRICE LIMITED OFFICIAL USE

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CONTROLS DOES NOT EXCLUDE ADDITIONAL INCREASES IF COSTS HAVE GONE UP MORE THAN 10 PERCENT, SINCE THE LAST OFFICIALLY GRANTED PRICE INCREASE. FOR EXAMPLE, ONE AUTO PRODUCER IS GOING IN FOR A 47 PERCENT PRICE INCREASE BASED ON SIMILAR COST INCREASES. GOM ATTITUDE TOWARD REQUESTS FOR PRICE INCREASES ABOVE 10 PERCENT IS NOT YET CLEAR.

8. COMMENT. THE DECREE TO CONTROL MORE CAREFULLY PUBLIC SECTOR EXPENDITURES IS THE FIRST SIGN OF GOM WILLINGNESS TO FACE UP TO THIS PROBLEM. WHILE IT IS QUESTIONABLE WHETHER THIS MEASURE WILL HAVE MUCH IMPACT IN THE LAST TWO MONTHS OF THIS ADMINISTRATION, IT MIGHT HAVE A FAVORABLE PSYCHOLOGICAL IMPACT WHICH IS BADLY NEEDED. WE UNDERSTAND FROM SENIOR BANK OF MEXICO OFFICIAL THAT MONEY WITHDRAWN FROM BANKS IN PERIOD SEPTEMBER 15-17, HAS NOT

RETURNED, THEREBY INDICATING CONTINUED MISTRUST OF AND
CONFUSION OVER GOM POLICIES. DECLINE IN BANKS' DEPOSITS
COMPENSATED FOR THROUGH SPECIAL DISCOUNT MECHANISM
ESTABLISHED EARLIER IN YEAR BY CENTRAL BANK.

9. CONFUSION OVER GOVERNMENT INTENT RE WAGES IN PRIVATE
SECTOR IS DISAPPOINTING, BUT PERHAPS DELIBERATE. THIS
INDICATES MORE THAN ANYTHING THE POLITICAL POWER OF
ORGANIZED LABOR. IT IS LIKELY TO LEAD TO ADDITIONAL
COST-PUCH PRESSURES, AND GENERATE DEMANDS FOR PRICE
INCREASES ABOVE THE ALLOWABLE 10 PERCENT. THE
RATIONALE BEHIND THIS 10 PERCENT PRICE INCREASE IS
NOT KNOWN, BUT IT IS PROBABLY INTENDED TO MAKE THE
ADMINISTRATIVE TASK OF HANDLING REQUESTS FOR PRICE
INCREASES SOMEWHAT EASIER THAN IT WOULD BE OTHERWISE
AND TO COMPENSATE FOR HIGHER WAGE COSTS.
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